

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

**MATT BRODY, on behalf of himself
and all others similarly situated,**

Plaintiffs,

vs.

**ZIX CORPORATION, RONALD A.
WOESSNER, JOHN A. RYAN,
DANIEL S. NUTKIS, STEVE M. YORK
and DENNIS F. HEATHCOTE,**

Defendants.

Civil Action No. 3:04-CV-1931-K
ECF

**SUPPLEMENTAL DECLARATION OF SCOTT D. HAKALA, Ph.D., CFA,
IN SUPPORT OF PLAINTIFF'S MOTION FOR CLASS CERTIFICATION**

Dated: July 30, 2007

Respectfully submitted,

CLAXTON & HILL

s/Roger F. Claxton

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CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of July, 2007, I electronically filed the foregoing document with the clerk of court for the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. The electronic case filing system sent a "Notice of Electronic Filing" to the following attorneys of record who have consented in writing to accept this notice as service of this document by electronic means:

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I further certify that a true and correct copy of the foregoing document was sent by first class mail to counsel listed below that have not consented in writing to accept this notice by electronic means:

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I hereby further certify that a copy of the Supplemental Declaration attached hereto was previously emailed to defendants' counsel (Messrs. Pecht and Dial and Ms. Rodgers) on July 16, 2007.

s/Roger F. Claxton
Roger F. Claxton

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

MATT BRODY, on behalf of himself and all : Civ. Action No. 3:04-CV-1931-K
others similarly situated, :

Plaintiff,

ECF

vs.

ZIX CORPORATION, RONALD A. WOESSNER, :
JOHN A. RYAN, DANIEL S. NUTKIS, :
STEVE M. YORK and DENNIS F. :
HEATHCOTE :

Defendants.

**SUPPLEMENTAL DECLARATION OF SCOTT D. HAKALA, PH.D, CFA
REGARDING LOSS CAUSATION**

I. Background and Qualifications of the Expert

1. In this supplemental declaration, counsel for the Plaintiff has requested that I address more directly the issue of reliance and loss causation in this case. This analysis follows naturally from the event study I prepared and provided in my prior Expert Report and Declaration on Market Efficiency signed and dated April 1, 2007. I incorporate by reference my prior report and the analyses and opinions contained therein. I also affirm my deposition testimony taken on May 17, 2007.

II. Summary of the Analyses and Conclusions

2. Economic loss causation follows directly from the fact that the representations of the Company and Defendants regarding the prospects for, development of and acceptance of Zix's e-prescription business and the later revelations that the acceptance of Zix's e-prescription business had not occurred at the previously represented rate and was not generating the revenue. The Defendants' representations prevented the Zix's share price from declining in response to weaker than expected performance in Zix's remaining Internet security business initially and at various times and then led to a substantial increase in Zix's share price over certain periods and at various times during the proposed Class Period from October 30, 2003, through May 4, 2004 (the "Class Period"). Revelations that the rate of adoption and commercial use and acceptance of Zix's e-prescription service were far less than previously reported then triggered substantial, statistically significant share price declines at the end of the Class Period.

3. In Exhibit B of my event study analysis, I have identified a significant increase in Zix's share price on October 30, 2003. This increase coincides with an anticipation of positive news regarding the development of the e-prescription business. As seen on October 31, 2003, lower than expected revenues and earnings in Zix's other businesses offset the positive events regarding the e-prescription business. In Exhibit E attached to this Supplemental Declaration one can see that the share price of Zix rose in late September and at various times in October 2003 but also fell in response to disappointing news regarding its other lines of business at certain times in late 2003.

4. In January 2004, Zix's share price rose substantially relative to the market and

industry indices (as shown in Exhibit C and Exhibit E) increasing from a last price of \$8.22 per share on January 2 to \$15.10 per share on January 30, 2004. A substantial portion of this increase was identified with Company announcements of adoptions of its products, including its e-prescription product, and the announcement on January 26, 2004, of the appointment of Rick Spurr as the President and Chief Operating Officer on the basis that the Company moving "from an early-stage technology company to a high-growth company." As later news and articles noted, a significant portion of this growth and stock price increase was attributed to information and leakage of information regarding the e-prescription business.

5. For example, Herb Greenberg in a CBS MarketWatch report on April 12, 2004, stated, "But in keeping with the contrarian nature of this column, I started mentioning it positively at around \$9 because of the potential for its e-prescription business; it's now trading above \$16. Zix is vying for a piece of the business with a dozen or so other companies, but it's believed to be well ahead of the pack. With e-prescribing, Zix or one of its competitors gives the docs Blackberries or other types of PDAs to electronically write prescriptions and then send them online to the pharmacies. The e-script companies get paid by transactions fees paid by multiple sources, including pharmacy benefit companies. Key for Zix: Execution. Don't be surprised if the stock is volatile until the transaction revenues start showing up in more than a token way, something that should start to happen (if it's ever going to) over the next six-plus months. (Sometimes I think if this company succeeds it will be in spite of itself.)" This indicates that the perceived potential and acceptance of the e-prescription business was a key component of the increase in Zix's share price and offset disappointing earnings news relative to

expectations (such as on February 4, 2004 and October 31, 2003). Additionally, this comment by Herb Greenberg led to another 6.77% relative increase¹ in Zix's share price on April 12, 2004.

6. On May 4, 2004, Zix's share price fell in advance of its earnings announcement. On the same day, an analyst report expressed concerns regarding the Company's sustainable margins but noted the Company's progress in deploying and gaining acceptance of its e-prescription product.

7. On May 5, 2004, Zix's share price fell substantially (15.38% relative to the market and industry indices) as a result of its earnings announcement and conference call. While revenues and earnings were modestly lower than expected, the disclosure/admission of the substantially lower rate of deployments of the e-prescription business was of major concern to investors. The failure of the e-prescription business to begin to demonstrate significant revenues and the lower guidance for revenues for the second quarter of 2004 were significant components of investors' negative reactions.

8. To further illustrate the importance of the e-prescription business, an article on May 6, 2004, by Herb Greenberg entitled "Can Zix find the right prescription?" confirmed that the failure on the part of Zix to demonstrate significant revenues and greater rates of adoption from its e-prescription business was the major factor in the stock price decline on May 5 and further depressed Zix's share price. In his report, he stated, "A zixit, a zasket: When I first started at MarketWatch I mentioned Zix as a company which I had actually written something positive about. I also said the reason for my bullishness -- revenue from the company's e-prescription business -- wasn't likely to show

¹ This increase had a t-statistic of 1.65 which is significant at the 95% confidence level using a one-tail (directional test) and at the 90% level using a two-tailed (non-directional) test.

up in revenue in a meaningful way for at least six months. Then, I said, if the company succeeds it'll be in spite of itself. (Not that saying anything positive is easy considering that some of my best sources have sold Zix short, a bet its stock will fall.) The company's first quarter financial results proved my point -- at least the "in spite of itself" part. Financial results were below estimates, but that's just noise right now. The "in spite of yourself" part was that Zix (ZIXI), which has a history of over-promising and under-delivering, did it again. This time it fell short (and not by a small amount) on the number of doctors it said on its conference call in early February would be signed up by the end of March to use its eprescription software. First some history: Before I get into the details, a little background: The sale of eprescribing software is the hype and hope surrounding Zix. On paper, at least, it makes perfect sense as an idea that is long overdue.... According to CEO John Ryan, it's simply a case of the company not fully understanding the obstacles it would face when it started rolling out its service in a market as new as eprescribing.... Making matters worse, he adds, most of the palm devices that were part of the early plan were Research in Motion's (RIMM) Blackberrys, which wound up not working with consistency in areas with poor wireless coverage (like hospitals!) -- a clear negative for doctors. The program was put on hold and since revised. Zix now offers pocket PCs from Dell, unless the doctors request otherwise. "We realized having a commitment [from insurers] is one thing," Ryan says. "The program still has to be sold to physicians," a stubborn group that doesn't easily accept change no matter how sensible it may be. For example, quite a few doctors balked at buying into something subsidized by an insurance company. "To them that's like inviting the IRS out to help you do your taxes," Ryan says. "We thought guys would say, 'You're doing this,

that's great. It didn't work out that way."... But even with Wellpoint, there's a catch: Prescriptions written for Wellpoint patients won't generate transaction fees. Right now, Zix only gets those fees if the patient's insurer is tied in with Medco, AdvancePCS or ExpressScripts -- three leading pharmacy benefit management companies which oversee an estimated 60% of all prescriptions. Wellpoint has its own pharmacy benefit operation, which doesn't pay any transaction fees. Zix hopes to eventually get fees from all PBMs."

9. Similarly, a Rodman and Renshaw analyst report on May 5, 2004, noted that, while Zix was "Just Meeting Guidance" for the first quarter of 2004, its "E-Prescribe Deployments Miss Significantly" with deployments of only 230 physicians as compared with expectations for 2000 physicians in the first quarter of 2004. As a result, the Rodman and Renshaw analyst report stated that, **"We Still Believe But Price Target and Estimates Under Review:** We realize that ZIXI had a disappointing 1Q04 especially in terms of physician deployments. We believe that the miss on physician deployments was due to underestimating the nature of deploying e-prescribe services to medical offices sans up to date IT infrastructure."

10. As can be seen in Exhibit E to this Supplemental Declaration, the decline in Zix's relative share price between May 3 and 6, 2004, was dramatic and extremely significant. It is clear from the above quotes that a substantial factor, indeed, the primary factor in explaining the relative decline in Zix's share price was attributable to information revealing the "relevant truth" as alleged in the Complaint regarding the problems and issues with deploying the e-prescription business, the lack of physician acceptance and the slower than represented rate of deployment and acceptance during the Class Period.

11. This analysis, while reasonably complete and thorough, is preliminary and without the benefit of discovery and additional information which might be considered for purposes of estimating inflation per share and damages.² I, therefore, may amend and supplement my conclusions based on subsequent analyses.

I declare under penalty of perjury under the laws of the State of Texas and the United States that the foregoing is true and correct. If called as a witness I could and would competently testify thereto.

Executed this 13th day of July 2007 at Dallas, Texas.



Scott D. Hakala, Ph.D., CFA

² I may, for example, consider bulletin board postings and other evidence of events. Such additional information will not significant change or alter the analysis other than improving the goodness-of-fit.

EXHIBIT A



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ZIX CORPORATION (ZIXI)

SOFTWARE & SERVICES

MARKET OUTPERFORM/ SPECULATIVE RISK

EARNINGS UPDATE

MAY 05, 2004

ZIXI: DOCTOR DEPLOYMENTS DELAYED DUE TO EXECUTION PROBLEMS

MARKET DATA

ZIXI (closing price)	\$13.61	5/4/2004
Target Price	\$16.00	
Market	NASDAQ	
52 Wk Hi - Low	\$18.55 - \$3.09	
Market Cap. (Mil)	\$416.1	
Shares Out (Mil)	30.6	
Public Mkt Float (Mil)	17.7	
Avg. Daily Vol (000s)	686	

BALANCE SHEET METRICS (03/31/04)

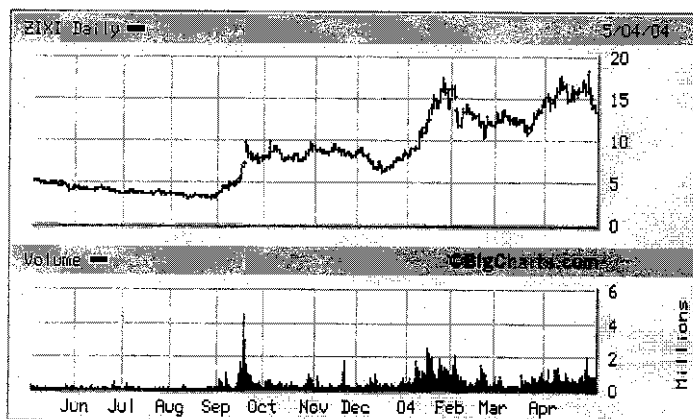
Cash & Equivalents (Mil)	\$24.1
LTD (Mil)	\$0.0

EARNINGS DATA

FY - 12/31	2003 A	2004 E	2005 E
1Q - 03/31	(\$0.33)	(\$0.35) A	(\$0.09)
2Q - 06/30	(\$0.29)	(\$0.33)	(\$0.03)
3Q - 09/30	(\$0.27)	(\$0.23)	\$0.06
4Q - 12/31	(\$0.29)	(\$0.17)	\$0.26
Full Year EPS	(\$1.16)	(\$1.07)	\$0.20
Revenue (Mil)	\$5.8	\$18.6	\$57.0
EBITDA (Mil)	(\$28.2)	(\$35.4)	\$7.2

VALUATION METRICS

Price/Earnings	NM	NM	67.3x
Price/Revenue	71.2x	22.4x	7.3x
Price/EBITDA	NM	NM	57.6x



Source: Bigcharts.com

JUST MEETING GUIDANCE Zix Corp. reported revenues of \$2.8 million and a net loss per share of (\$0.35) for 1Q04, below our estimates of \$2.95 million and (\$0.33) respectively. We note that the guidance was for total revenues of \$2.8 to 3.0 million for 1Q04. ZIXI provided the following financial guidance for 2Q04: revenue in the range of \$3.4 million to \$3.8 million and cash of at least \$24 million at the end of 2Q04.

E-PRESCRIBE DEPLOYMENTS MISS SIGNIFICANTLY ZIXI deployed an additional 230 physicians onto its e-prescription service in 1Q04 bringing the net total to roughly 1,230. We were expecting 2,000 physicians to be added. We believe that ZIXI should meet its 10,000-physician goal but the timing is expected to be delayed to mid 2005 vs. year-end 2004 due to misjudgment by the firm in forecasting deployment time for e-prescription services.

SECURE MESSAGING BUILDING STEAM In our opinion, ZIXI did not spend enough time discussing the communication protection group (CPG), its core market. We believe that CPG revenue growth should build steadily within the next 12 months as companies comply with federal regulations such as HIPAA and Gramm-Leach-Bliley (GLBA).

REVISING ESTIMATES We anticipate increased expenses in sales and marketing as ZIXI aggressively deploys e-prescribe services within its existing signed customers and more importantly in the upcoming battle with Allscripts (MDRX, Not Rated) for Wellpoints (WLP, Not Rated) existing opportunity of 19,000 physicians. We have changed our 2004 revenue estimate to \$18.6 MM (\$22.3 earlier). Our 2004 EPS estimate is now \$(1.07), compared to a loss of \$(0.88) earlier.

STILL BELIEVE IN ZIXI STORY We realize that ZIXI had a disappointing 1Q04 especially in terms of physician deployments and orders booked. We still believe that the demand for e-prescribe by physicians, healthcare insurance firms and the federal government is real and should ramp steadily.

ANALYZING THE NUMBERS

Order Booked Below Guidance ZIXI does not provide a detailed breakdown of revenues between the communications protection group (CPG - secure messaging) and care delivery group (CDG - Internet healthcare) but chooses to report orders booked. We were surprised to see that orders booked missed the firm's guidance of between \$11.5 million to \$13 million and came in at \$9.2 million. The miss was due to a decision by ZIXI to focus on winning the WellPoint transaction rather than an existing CDG opportunity for roughly \$4 million (which management believes it can close in 2Q04).

Backlog Still Building Management reported that backlog increased sequentially to \$19.4 million from \$13 million. Backlog consists of \$5.5 million in deferred revenues, \$6.2 million in orders that were billed and not received, \$7.3 million in contracts yet to be billed and \$4 million associated with the Adventis deal.

E-Prescribe Deployments Miss Significantly ZIXI deployed an additional 230 physicians onto its e-prescription service in 1Q04 bringing the net total to roughly 1,230. We were expecting 2,000 physicians to be added, which appeared reasonable considering that ZIXI's 2004 goal for e-prescription is 10,000 physicians (which does not take into account the WellPoint deal). We note that ZIXI has 4,000 physicians signed onto the service that need to be deployed. We believe that ZIXI should meet its 10,000-physician goal but the timing is expected to be delayed to mid 2005 vs. year-end 2004 due to misjudgment by the firm in forecasting deployment time for e-prescription services.

Figure 1: Zix Corporation – 1Q04 Earnings Analysis and 2004/2005 Estimate Revisions

	1Q04 Estimate	1Q04 Actual	Delta	2004E Previous	2004E Revised	Delta	2005E Previous	2005E Revised	Delta
Revenues	\$3.0	\$2.8	-3.7%	\$22.3	\$18.6	-16.7%	\$61.5	\$57.0	-7.2%
COGS	\$3.5	\$3.2	-9.3%	\$14.1	\$13.8	-2.3%	\$20.4	\$18.8	-7.7%
Gross Margin	-\$0.5	-\$0.3	40.3%	\$8.2	\$4.9	-40.9%	\$41.1	\$38.2	-7.0%
Gross margin %	-18%	-11%	38.1%	37%	26%	-29.0%	67%	67%	0.3%
Operating Expenses	\$9.5	\$10.5	10.2%	\$35.5	\$40.3	13.4%	\$30.8	\$31.0	0.6%
Net Income	-\$10.1	-\$10.7	-6.0%	-\$27.5	-\$35.4	-28.8%	\$10.1	\$7.1	-29.9%
EPS	-\$0.33	-\$0.35	-6.1%	-\$0.88	-\$1.07	-21.6%	\$0.30	\$0.20	-33.3%

\$ in millions except for per share data

Source: Company reports, Rodman & Renshaw estimates

STRATEGIC OUTLOOK

We Still Believe But Price Target and Estimates Under Review We realize that ZIXI had a disappointing 1Q04 especially in terms of physician deployments. We believe that the miss on physician deployments was due to underestimating the nature of deploying e-prescribe services to medical offices sans up to date IT infrastructure. We still believe that the demand for e-prescribe by physicians, healthcare insurance firms and the federal government is real and should ramp steadily. It appears that we were six to nine months early. We continue to believe that ZIXI's secure messaging data center should position the firm for significant long-term revenue growth. The question now is how the firm will perform on the bottom line. We anticipate increased operating expenses in sales and marketing as ZIXI aggressively deploys e-prescribe services within its existing signed customers and more importantly in the upcoming battle with Allscripts (MDRX, Not Rated) for Wellpoints existing opportunity of 19,000 physicians. On the other hand, we believe that gross margins should improve within the next two quarters as the firm integrates MyDocOnline.

We believe that Internet healthcare services is a valid business especially since the federal government is seeking ways to lower national healthcare costs. We continue to believe in ZIXI's ability to provide secure messaging service (in line with HIPAA) and provide outsourced data storage places.

Wellpoint's Physician Quality and Technology Initiative Wellpoint has 19,000 physicians in its installed base over 170,000 network physicians nationwide that can choose from the Prescription Improvement Package (PIP) or the Paperwork Reduction Package (PRP). The PIP is a hand held electronic prescribing unit, which will allow physicians to electronically generate prescriptions. The PRP is a computer/printer package that facilitates paperless submissions of claims. Currently, ZIXI provides only handheld solutions but is in the process of providing PRP services as well. Wellpoint reported that to date almost 11,000 physicians have made their technology selection. About 10% of these physicians have selected the e-Prescribe package. We believe that ZIXI should increase penetration for e-Prescribe as well as the PRP solution.

Figure 2: Zix Corporation - Comparable Table

Company	Ticker	Close 5/4/04	Shares Outs.	Market Cap	Cash & C.E	Total Debt	P/E Ratio			P/S Ratio		
							2003A	2004E	2005E	2003A	2004E	2005E
Zix Corporation	ZIXI	13.61	30.6	416	24	0	NM	NM	68.1	71.2	22.4	7.3
Authentidate Holding Corp.	ADAT	10.21	32.3	330	8	2	NM	NM	NM	13.1	18.1	10.4
Critical Path Inc.	CPTH	1.96	21.2	41	19	54	NM	NA	NA	0.6	NA	NA
Entrust Technologies Inc.	ENTU	4.61	63.6	293	93	0	NM	92.2	38.4	3.3	3.0	2.7
Allscripts Healthcare Solutions	MDRX	9.60	39.1	375	17	0	NM	120.0	36.9	4.4	3.6	3.0
NDCHealth Corp	NDC	23.13	36.0	833	34	313	19.4	19.9	17.8	1.9	1.8	1.6
Secure Computing Corp.	SCUR	9.85	35.4	348	41	0	39.4	23.5	17.0	4.6	3.5	3.0
Symantec Corp.	SYMC	49.15	311.2	15,297	2,410	600	45.5	34.6	29.8	9.0	6.7	5.9
Tumbleweed Comm.	TMWD	3.78	42.5	161	23	1	NM	63.0	17.2	5.3	3.2	2.2
Average							34.8	58.9	26.2	5.2	5.7	4.1

ZIX Corp. (ZIXI)															
FY End Dec 31															
Income Statement ('000s) (except per share data)															
	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04E	3Q04E	4Q04E	2004E	1Q05E	2Q05E	3Q05E	4Q05E	2005E
Revenues	639	1,014	2,219	1,968	5,840	2,843	3,838	5,181	6,736	18,598	8,420	10,946	14,777	22,904	57,046
Cost of Revenues	1,760	1,854	1,934	2,663	8,211	3,160	3,500	3,368	3,705	13,733	2,947	3,831	5,172	6,871	18,821
QoQ Change in Revenues	17.0%	58.7%	118.8%	-11.3%	NA	44.5%	35.0%	35.0%	30.0%	NA	25.0%	30.0%	35.0%	55.0%	NA
YoY Change in Revenues	64.3%	234.7%	411.3%	260.4%	249.3%	344.9%	278.5%	133.5%	242.3%	218.5%	196.2%	185.2%	185.2%	240.0%	206.7%
Gross Profit	(1,121)	(840)	285	(695)	(2,371)	(317)	338	1,813	3,031	4,866	5,473	7,115	9,605	16,033	38,225
Gross Margins	-175.4%	-82.8%	12.8%	-35.3%	-40.6%	-11.2%	20.0%	35.0%	45.0%	26.16%	65.0%	65.0%	65.0%	70.0%	67.01%
Operating Expenses															
Research and Development	1,204	1,219	1,539	1,934	5,896	2,691	2,800	2,500	2,000	9,991	2,000	2,000	2,000	2,000	8,000
Selling, General and Administrative	4,523	4,532	5,253	5,599	19,907	7,777	8,000	7,500	7,000	30,277	6,500	6,000	5,500	5,000	23,000
% of Sales Research and Development	188.4%	120.2%	69.4%	98.3%	101.0%	94.7%	73.0%	48.2%	29.7%	53.7%	23.8%	18.3%	13.5%	8.7%	14.0%
% of Sales Selling, General and Admin.	707.8%	446.9%	236.7%	284.5%	340.9%	273.5%	208.4%	144.7%	103.9%	162.8%	77.2%	54.8%	37.2%	21.8%	40.3%
Total Operating Expense	5,727	5,751	6,792	7,533	25,803	10,468	10,800	10,000	9,000	40,268	8,500	8,000	7,500	7,000	31,000
Operating Income	(6,848)	(6,591)	(6,507)	(8,228)	(28,174)	(10,785)	(10,462)	(8,187)	(5,969)	(35,402)	(3,027)	(885)	2,105	9,033	7,225
Investment and other Income	41	560	28	39	668	50	50	50	50	200	50	50	50	50	200
Interest expense	0	0	5	8	13	8	8	8	8	32	8	8	8	8	32
Realized and unrealized gain (loss) on investments	0	0	0	0	0	70	0	0	0	70	0	0	0	0	0
Earnings Before Taxes	(6,807)	(6,031)	(6,484)	(8,197)	(27,519)	(10,673)	(10,420)	(8,145)	(5,927)	(35,164)	(2,985)	(843)	2,147	9,075	7,393
Income Tax (Benefit)	24	24	22	78	(148)	(29)	80	80	80	211	80	80	80	80	320
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-9.49%	3.73%	0.88%	4.33%
Net Income (Loss)	(6,831)	(6,055)	(6,506)	(8,275)	(27,371)	(10,702)	(10,500)	(8,225)	(6,007)	(35,375)	(3,065)	(923)	2,067	8,995	7,073
EPS (Net Loss Per Share)	(\$0.33)	(\$0.29)	(\$0.27)	(\$0.29)	(\$1.16)	(\$0.35)	(\$0.33)	(\$0.23)	(\$0.17)	(\$1.07)	(\$0.09)	(\$0.03)	\$0.06	\$0.26	\$0.20
Weighted Average Shares Diluted	20,570	21,152	23,975	28,314	23,525	30,200	31,700	35,000	35,000	32,975	35,000	35,000	35,000	35,000	35,000
Source: SEC filings and Rodman and Renshaw estimates															

Source: SEC filings and Rodman and Renshaw estimates

ZIX CORPORATION

ZIX Corp. (ZIXI)
FY End Dec 31
Balance Sheet (000s)

	<u>2002</u>	<u>1Q03</u>	<u>2Q03</u>	<u>3Q03</u>	<u>4Q03</u>	<u>2003</u>	<u>1Q04</u>
Assets							
Current Assets							
Cash & Cash Equivalents	7,586	8,333	7,697	10,342	13,852	13,852	24,083
Marketable Securities	7,246	2,265	5,254	6,255			
Receivables, net	1,014	194	460	427	359	359	504
Other current Assets	1,546	1,087	664	1,122	1,147	1,147	1,524
Total Current Assets	17,392	11,879	14,075	18,146	15,358	15,358	26,111
Property and Equipment, Net	3,608	3,444	3,171	3,536	3,151	3,151	4,296
Intangible Assets, net				3,886	3,589	3,589	5,655
Goodwill				4,312	4,321	4,321	4,323
Total Assets	21,000	15,323	17,246	29,880	26,419	26,419	40,385
Liabilities and Stockholder's Equity							
Current Liabilities							
Accounts Payable and accrued expense	2,976	2,321	2,110	4,153	3,738	3,738	4,630
Liabilities related to discontinued ops		240	240				
Deferred Revenue	826	1,881	3,092	3,570	4,762	4,762	5,481
Total Current Liabilities	3,802	4,442	5,442	7,723	8,500	8,500	10,111
Convertible promissory note payable				1,000			
Series A convertible preferred stock	2,252	2,238	2,118				
Series B convertible preferred stock	3,401	3,480	3,271				
Total Liabilities	9,455	10,160	10,831	8,723	8,500	8,500	
Preferred stock							
Common Stock	228	230	251	302			
Additional Capital	195,846	196,657	204,194	225,714			
Unearned stock based compensation	(565)	(435)	(213)	(98)			
Treasury stock	(11,507)	(11,507)	(11,507)	(11,507)			
Accumulated deficit	(172,457)	(179,782)	(186,310)	(193,254)			
Total Stockholders' Equity	11,545	5,163	6,415	21,157	17,919	17,919	30,274
Total Liabilities and Equity	21,000	15,323	17,246	29,880	26,419	26,419	40,385

Source: SEC filings and Rodman & Renshaw estimates

ZIX CORPORATION

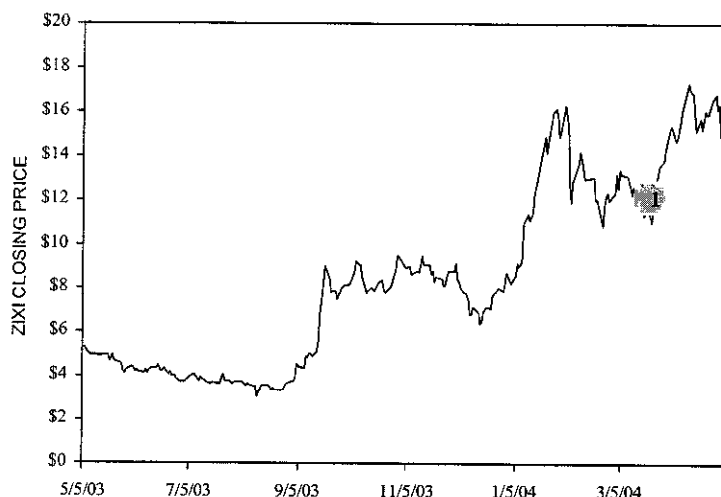
RODMAN & RENSHAW RATING SYSTEM: Rodman & Renshaw employs a three tier rating system for evaluating both the potential return and risk associated with owning common equity shares of rated firms. The expected return of any given equity is measured on a RELATIVE basis of other companies in the same sector, as defined by First Call. The price objective is calculated to estimate the potential movement in price a given equity could achieve given certain targets are met over a defined time horizon. Price objectives are subject to exogenous factors including industry events and market volatility. The risk assessment evaluates the company specific risk and accounts for the following factors, maturity of market, maturity of technology, maturity of firm, cash utilization, and valuation considerations. Potential factors contributing to risk: relatively undefined market, new technologies, immature firm, high cash burn rates, intrinsic value weighted toward future earnings or events.

RETURN ASSESSMENT

- **Market Outperform:** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Perform:** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Underperform:** The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

RISK ASSESSMENT

- **Speculative –** The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- **Aggressive -** The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- **Moderate –** The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.

RATING HISTORY

Date, Rating, Price Target
1. 03/11/04, Outperform, \$16

RATING SUMMARY

Rating	Research Coverage (Past 12 months)	Investment Banking Services Provided
Outperform	75%	35%
Perform	10%	43%
Underperform	1%	0%

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.

ZIX CORPORATION

RATED COMPANIES MENTIONED IN THE REPORT

Name	Ticker	Exchange	Price	Rating	Target Price
Tumbleweed Communication:	TMWD	Nasdaq	\$3.78	Market Outperform / Speculative Risk	\$16.00

ADDITIONAL DISCLOSURES

Rodman & Renshaw, Inc. (the "Firm") is a member of NASD and SIPC and a registered U.S. Broker-Dealer.

ANALYST CERTIFICATION: I, EDWARD CHING, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I, RANJIT UNNITHAN, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities.

None of the research analysts, the research analyst's household or the Firm, has a financial interest in the securities of ZIX CORPORATION (including, without limitation, any option, right, warrant, future, long or short position).

As of December 31, 2003, neither the Firm nor its affiliates beneficially own 1% or more of any class of common equity securities of ZIX CORPORATION.

Neither the research analyst nor the Firm has any material conflict of interest with ZIX CORPORATION, of which the research analyst knows or has reason to know at the time of publication of this research report.

The research analyst principally responsible for preparation of the report does not receive compensation that is based upon (among other factors) any specific investment banking services transaction but may receive compensation based in part upon the Firm's overall investment banking revenues.

The Firm or its affiliates did not receive compensation from ZIX CORPORATION for any investment banking services within twelve months before, but intends to seek compensation from ZIX CORPORATION for investment banking services within three months, following publication of the research report.

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The Firm makes a market in the ZIX CORPORATION's securities as of the date of this research report.

Any opinions expressed herein are statements of our judgment as of the date of publication and are subject to change without notice.

Reproduction without written permission is prohibited. The closing prices of securities mentioned in this report are as of May 04, 2004. Additional information is available to clients upon written request. For complete research report on ZIX CORPORATION, please call (212) 356-0500.

Readers are advised that this analysis report is issued solely for informational purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy. The information contained herein is based on sources, which we believe to be reliable, but is not guaranteed by us as being accurate and does not purport to be a complete statement or summary of the available data. Past performance is no guarantee of future results.



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ZIX CORPORATION (ZIXI)

SOFTWARE & SERVICES

MARKET OUTPERFORM/ SPECULATIVE RISK

COMPANY UPDATE

MAY 04, 2004

ZIXI: 1Q04 EARNINGS PREVIEW

MARKET DATA

ZIXI (closing price)	\$14.43	5/3/2004
Target Price	\$16.00	
Market	NASDAQ	
52 Wk Hi - Low	\$18.55 - \$3.09	
Market Cap. (Mil)	\$441.1	
Shares Out (Mil)	30.6	
Public Mkt Float (Mil)	17.7	
Avg. Daily Vol (000s)	707	

BALANCE SHEET METRICS (12/31/03)

Cash & Equivalents (Mil)	\$13.9
LTD (Mil)	\$0.0

EARNINGS DATA

FY - 12/31	2003 A	2004 E	2005 E
1Q - 03/31	(\$0.33)	(\$0.33)	(\$0.04)
2Q - 06/30	(\$0.29)	(\$0.28)	\$0.03
3Q - 09/30	(\$0.27)	(\$0.19)	\$0.07
4Q - 12/31	(\$0.29)	(\$0.08)	\$0.24
Full Year EPS	(\$1.16)	(\$0.88)	\$0.30
Revenue (Mil)	\$5.8	\$22.3	\$61.5
EBITDA (Mil)	(\$28.2)	(\$27.3)	\$10.3

VALUATION METRICS

Price/Earnings	NM	NM	48.1x
Price/Revenue	75.5x	19.8x	7.2x
Price/EBITDA	NM	NM	42.9x

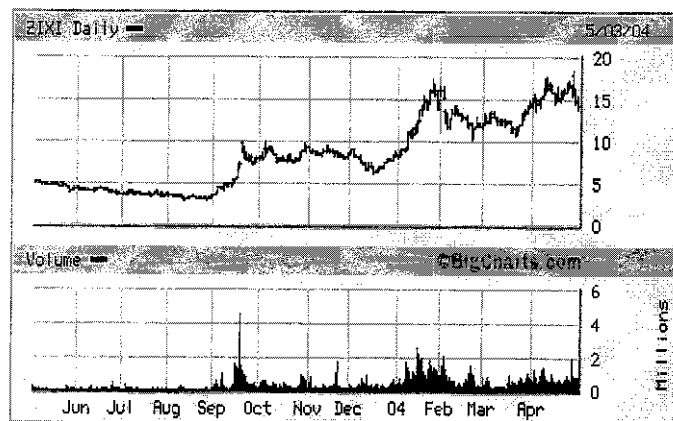
ZIX WILL REPORT EARNINGS TODAY Zix Corporation will report 1Q04 earnings today after markets close. The company will host a conference call at 5 PM EDT. The dial in number is 1-800-901-5241 (U.S.), Access Code: 81630955. We are expecting \$2.95 million in total revenues (up 50% sequentially) and a net loss per share of (\$0.33). 1Q04 guidance calls for total revenues between \$2.8 -3.0 million.

THE WELLPOINT DEAL - EXECUTING IN THE HEALTHCARE MARKET We are pleased to note Zix's selection as a vendor in the Wellpoint (WLP, Not Rated) electronic prescribing initiative. We believe this should help the company meet its target of 10,000 physicians on e-prescribe by the end of the year. However, we note that Zix will not be selling devices to physicians as in previous e-prescribe deployments and we estimate the price point in the Wellpoint deployment should be lower than historical deployments.

IMPROVING TOP LINE, NOW FOR THE MARGINS

While we note the top line is progressing with our estimates, we are looking for improvement in gross and operating margins as the company makes progress in its integration of MyDocOnline and Elron Software. We would expect headway to be made in the second half of 2004 and into 2005.

REITERATE MARKET OUTPERFORM In our view, Zix is executing on penetrating the healthcare market for electronic secure messaging. We note that Zix continues to increase its installed base for enterprise secure messaging solutions. We believe that the secure messaging business is just as critical to Zix's long-term success as the Internet Healthcare market. We reiterate our Market Outperform / Speculative Risk rating on ZIXI.



Source: Bigcharts.com

ZIX CORPORATION

ZIX Corp. (ZIXI)

FY End Dec 31

Income Statement (000s) (except per share data)

	1Q03	2Q03	3Q03	4Q03	2003	1Q04E	2Q04E	3Q04E	4Q04E	2004E	1Q05E	2Q05E	3Q05E	4Q05E	2005E
Revenues	639	1,014	2,219	1,968	5,840	2,952	4,428	5,978	8,967	22,325	10,312	13,405	15,416	22,353	61,486
Cost of Revenues	1,760	1,854	1,934	2,663	8,211	3,483	3,500	3,527	3,587	14,097	3,609	4,692	5,396	6,706	20,402
QoQ Change in Revenues	17.0%	58.7%	118.5%	-11.3%	NA	50.0%	50.0%	35.0%	50.0%	NA	15.0%	30.0%	15.0%	45.0%	NA
YoY Change in Revenues	64.3%	234.7%	411.3%	260.4%	249.3%	362.0%	336.7%	169.4%	355.6%	282.3%	249.3%	202.7%	157.9%	149.3%	175.4%
Gross Profit	(1,121)	(840)	285	(695)	(2,371)	(531)	928	2,451	5,380	8,228	6,703	8,713	10,020	15,647	41,084
Gross Margins	-175.4%	-82.8%	12.8%	-35.3%	-40.6%	-18.0%	23.0%	41.0%	60.0%	36.85%	65.0%	65.0%	65.0%	70.0%	66.82%
Operating Expenses															
Research and Development	1,204	1,219	1,539	1,934	5,896	2,500	2,500	2,000	2,000	9,000	2,000	2,000	2,000	2,000	8,000
Selling, General and Administrative	4,523	4,532	5,253	5,599	19,907	7,000	7,000	6,500	6,000	26,500	6,000	5,800	5,600	5,400	22,800
% of Sales Research and Development	188.4%	120.2%	69.4%	98.3%	101.0%	84.7%	56.5%	33.5%	22.3%	40.3%	19.4%	14.9%	13.0%	8.9%	13.0%
% of Sales Selling, General and Admin.	707.8%	446.9%	236.7%	284.5%	340.9%	237.1%	158.1%	108.7%	66.9%	118.7%	58.2%	43.3%	36.3%	24.2%	37.1%
Total Operating Expense	5,727	5,751	6,792	7,533	25,803	9,500	9,500	8,500	8,000	35,500	8,000	7,800	7,600	7,400	30,800
Operating Income	(6,848)	(6,591)	(6,507)	(8,228)	(28,174)	(10,031)	(8,572)	(6,049)	(2,620)	(27,272)	(1,297)	913	2,420	8,247	10,284
Investment and other income	41	580	28	39	668	40	40	40	40	160	40	40	40	40	160
Interest expense	0	0	5	8	13	8	8	8	8	32	8	8	8	8	32
Earnings Before Taxes	(6,807)	(6,031)	(6,484)	(8,197)	(27,519)	(9,999)	(8,540)	(6,017)	(2,588)	(27,144)	(1,265)	945	2,452	8,279	10,412
Income Tax (Benefit)	24	24	22	78	(148)	80	80	60	80	320	80	80	80	80	320
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.46%	3.26%	0.97%	3.07%
Net Income (Loss)	(6,831)	(6,055)	(6,506)	(8,275)	(27,371)	(10,079)	(8,620)	(6,097)	(2,668)	(27,464)	(1,345)	865	2,372	8,199	10,092
EPS (Net Loss Per Share)	(\$0.33)	(\$0.29)	(\$0.27)	(\$0.29)	(\$1.16)	(\$0.33)	(\$0.28)	(\$0.19)	(\$0.08)	(\$0.88)	(\$0.04)	\$0.03	\$0.07	\$0.24	\$0.30
Weighted Average Shares Diluted	20,570	21,152	23,975	28,314	23,525	30,400	31,000	31,500	32,000	31,225	32,500	33,000	33,500	34,000	33,250

Source: SEC filings and Rodman and Renshaw estimates

ZIX CORPORATION

ZIX Corp. (ZIXI)
FY End Dec 31
Balance Sheet (000s)

	<u>2002</u>	<u>1Q03</u>	<u>2Q03</u>	<u>3Q03</u>	<u>4Q03</u>	<u>2003</u>
Assets						
Current Assets						
Cash & Cash Equivalents	7,586	8,333	7,697	10,342	13,852	13,852
Marketable Securities	7,246	2,265	5,254	6,255		
Receivables, net	1,014	194	460	427	359	359
Other current Assets	1,546	1,087	664	1,122	1,147	1,147
Total Current Assets	17,392	11,879	14,075	18,146	15,358	15,358
Property and Equipment, Net	3,608	3,444	3,171	3,536	3,151	3,151
Intangible Assets, net				3,886	3,589	3,589
Goodwill				4,312	4,321	4,321
Total Assets	21,000	15,323	17,246	29,880	26,419	26,419
Liabilities and Stockholder's Equity						
Current Liabilities	2,976	2,321	2,110	4,153	3,738	3,738
Accounts Payable and accrued expense		240	240			
Liabilities related to discontinued ops	826	1,881	3,092	3,570	4,762	4,762
Deferred Revenue	3,802	4,442	5,442	7,723	8,500	8,500
Total Current Liabilities						
Convertible promissory note payable				1,000		
Series A convertible preferred stock	2,252	2,238	2,118			
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Preferred stock						
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Additional Capital	195,846	196,657	204,194	225,714		
Unearned stock based compensation	(565)	(435)	(213)	(98)		
Treasury stock	(11,507)	(11,507)	(11,507)	(11,507)		
Accumulated deficit	(172,457)	(179,782)	(186,310)	(193,254)		
Total Stockholders' Equity	11,545	5,163	6,415	21,157	17,919	17,919
Total Liabilities and Equity	21,000	15,323	17,246	29,880	26,419	26,419

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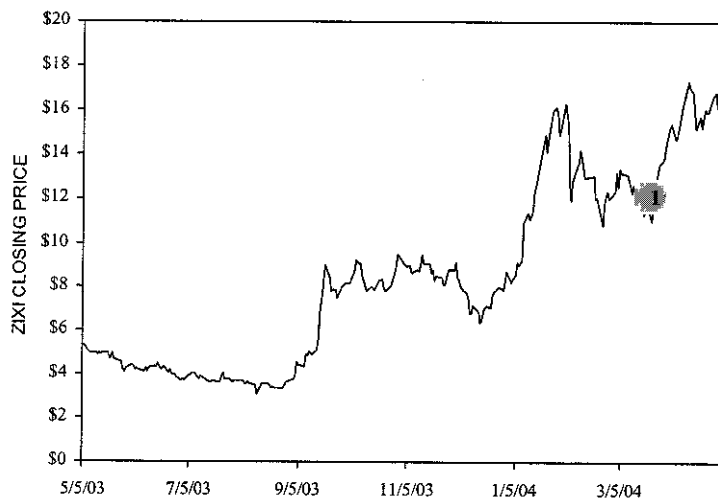
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- **Speculative –** The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
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RATING HISTORY



Date, Rating, Price Target
1. 03/11/04, Outperform, \$16

RATING SUMMARY

Rating	Research Coverage (Past 12 months)	Investment Banking Services Provided
Outperform	76%	32%
Perform	9%	50%
Underperform	2%	0%

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.

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EXHIBIT C

Can Zix find the right prescription? CBS MarketWatch May 6, 2004 Thursd

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CBS MarketWatch

May 6, 2004 Thursday

SECTION: NEWS & COMMENTARY; COMMENTARY; HERB GREENBERG

LENGTH: 1377 words

HEADLINE: Can Zix find the right prescription?

BYLINE: Herb Greenberg, CBS MarketWatch.com; mailto:hgreenberg@marketwatch.com; Herb Greenberg is senior columnist for CBS MarketWatch.com, based in San Diego. He does not own stocks (except for shares of his employer, MarketWatch.com), and he does not sell stocks short or invest in hedge funds.

BODY:

SAN DIEGO (CBS.MW) -- A zixit, a zasket: When I first started at MarketWatch I mentioned Zix as a company which I had actually written something positive about.

I also said the reason for my bullishness -- revenue from the company's eprescription business -- wasn't likely to show up in revenue in a meaningful way for at least six months. Then, I said, if the company succeeds it'll be in spite of itself. (Not that saying anything positive is easy considering that some of my best sources have sold Zix short, a bet its stock will fall.)

The company's first quarter financial results proved my point -- at least the "in spite of itself" part.

Financial results were below estimates, but that's just noise right now. The "in spite of yourself" part was that Zix (ZIXI), which has a history of over-promising and under-delivering, did it again.

This time it fell short (and not by a small amount) on the number of doctors it said on its conference call in early February would be signed up by the end of March to use its eprescription software.

First some history

Before I get into the details, a little background: The sale of eprescribing software is the hype and hope surrounding Zix.

On paper, at least, it makes perfect sense as an idea that is long overdue. With software from Zix or any of its competitors, doctors can send prescriptions using a wireless pocket PC directly to pharmacies. The system figures out whether such things as generic drugs can be substituted or whether a certain brand is part of a patient's health plan. Zix's software checks for interactions with other drugs a patient might be taking. The result is less time for doctors, druggists and insurers going back and forth with each other on the phone trying to get an answer to what should be a simple question. (Ask any doctor how much he or she loves that!)

Doctors pay Zix for the cost of the pocket PC plus a subscription -- a total of about \$1,000 the first year, which in most cases is currently pre-paid by subsidies from insurance companies.

The best part of the story, though, isn't what the doctors or insurers pay but in transaction fees paid by pharmacy benefit companies and the pharmacies, plus incremental fees from other sources. The pharmacy benefit managers are more than willing to pay because of the savings they get if patients use generics and "preferred" drugs. With eprescribing, they're also likely to receive more prescriptions for mail-order delivery. Zix says transaction fees in the first year could be around \$500 on the low end, with some generating well over \$1,000. (A lower figure, I might add, than the company originally had been saying.)

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Add that to the amount the doctors pay to subscribe each year -- around \$400 -- and multiply by the number of doctors signed up and you can wind up with respectable enough revenue to add on to the company's e-mail encryption software business.

By the end of this year, according to Zix's original forecast, it would have had 10,000 doctors on board, with 2,000 signed up by the end of the first quarter. That includes 1,000 that were in place at the end of last year -- most of whom had been acquired when the company bought its way into the eprescription business through the purchase of PocketScripts. The first quarter has come and gone and, as it turns out, Zix added a pathetically low 230, for a total of 1,230, with another 60 ready to roll.

Perplexing question

How could the company be so far off on its estimates of less than two months earlier?

According to CEO John Ryan, it's simply a case of the company not fully understanding the obstacles it would face when it started rolling out its service in a market as new as eprescribing. He says Zix initially was enthusiastic after receiving commitments from insurers willing to cover the first-year cost of \$1,100, on average, for 4,000 doctors -- mostly in Massachusetts. Early on, the company thought sales would be a snap. Renewals by the original 1,000 doctors was running at 95% and Zix signed up around 65 doctors in a single day at its first Zix-sponsored seminar earlier this year. The company figured it could duplicate its success at future seminars, but it didn't quite work out that way. "The seminars bombed in the next round," he says.

Making matters worse, he adds, most of the palm devices that were part of the early plan were Research in Motion's (RIMM) Blackberrys, which wound up not working with consistency in areas with poor wireless coverage (like hospitals!) -- a clear negative for doctors. The program was put on hold and since revised. Zix now offers pocket PCs from Dell, unless the doctors request otherwise. "We realized having a commitment [from insurers] is one thing," Ryan says. "The program still has to be sold to physicians," a stubborn group that doesn't easily accept change no matter how sensible it may be.

For example, quite a few doctors balked at buying into something subsidized by an insurance company. "To them that's like inviting the IRS out to help you do your taxes," Ryan says. "We thought guys would say, 'You're doing this, that's great. It didn't work out that way.'"

Ryan says the issues have since been resolved and 1,000 new doctor sign-ups per month remains his target. He still believes the company's original goal of 10,000 doctors by year-end "is attainable."

Some of those are expected to come through the company's recent deal with Wellpoint Health Networks (WLP), which through Microsoft also signed up Allscripts (MDRX) to provide eprescription software. Wellpoint's doctors will choose.

But even with Wellpoint, there's a catch: Prescriptions written for Wellpoint patients won't generate transaction fees. Right now, Zix only gets those fees if the patient's insurer is tied in with Medco, AdvancePCS or ExpressScripts -- three leading pharmacy benefit management companies which oversee an estimated 60% of all prescriptions. Wellpoint has its own pharmacy benefit operation, which doesn't pay any transaction fees. Zix hopes to eventually get fees from all PBMs.

No stash of cash

Shorts, meanwhile, are galvanized on what they believe is the company's severe cash drain. Last quarter Zix burned through \$10 million -- not a good rate for a company that last quarter had cash of \$24 million, nearly half of which came from insiders and others exercising stock options and warrants. But Ryan says that after taking into account cash collections the real burn was more like \$4 million. "The real question you're asking is whether we could run out of cash," he says. "The answer is no." He insists the company could easily raise cash.

A bigger question is whether you can believe what he says -- and how he knows he can do what he now says he can. "We've grown through this," Ryan says. "It's almost like a manufacturing process we've put in motion. We will deploy [new doctor signups] and we will deploy with quality. It's just something we will do. The only way that won't happen is if the physicians refuse to ever want to do this no matter how

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lucrative it is. That's the only reason it won't happen, and that's not likely because there's just too much good at stake."

In more ways than one.

Reality Check: In the end it's all about execution for Zix, and the clock is ticking. Some bulls are currently willing to give management the benefit of the doubt, given that they're maneuvering in an emerging business. Even the company's biggest fans, however, are likely to lose patience if the company can't soon convert its conceptual plans into reality. I know one normally skeptical financial columnist (cough, cough) who certainly will.

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EXHIBIT D

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CBS MarketWatch

April 12, 2004 Monday

SECTION: NEWS & COMMENTARY; COMMENTARY; HERB GREENBERG

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HEADLINE: A Greenberg sampler of stocks to watch

BYLINE: Herb Greenberg, CBS MarketWatch.com; mailto:hgreenberg@marketwatch.com; Herb Greenberg is senior columnist for CBS MarketWatch.com, based in San Diego.

BODY:

SAN DIEGO (CBS.MW) -- I don't have a watch list per se, but there are plenty of companies that for one reason or another show up in over and over and can be expected to be mentioned here from time to time.

Most have red flags flapping furiously over them, such as, in no particular order:

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Now for something completely different

Meanwhile, contrary to what you may have heard, I also have written my share of stories with a positive bent, such as:

Zix (ZIXI). The Dallas-based company is best known for its e-mail encryption software. It's also known as one of Dallas Maverick owner Mark Cuban's largest short positions. (Gotta love Mark; at least he puts his money where his well-known mouth is.) Adding to the tension: It's also a popular short for some of my best sources.

But in keeping with the contrarian nature of this column, I started mentioning it positively at around \$9 because of the potential for its e-prescription business; it's now trading above \$16. Zix is vying for a piece of the business with a dozen or so other companies, but it's believed to be well ahead of the pack.

With e-prescribing, Zix or one of its competitors gives the docs Blackberries or other types of PDAs to electronically write prescriptions and then send them online to the pharmacies. The e-script companies get paid by transactions fees paid by multiple sources, including pharmacy benefit companies. Key for Zix: Execution.

Don't be surprised if the stock is volatile until the transaction revenues start showing up in more than a token way, something that should start to happen (if it's ever going to) over the next six-plus months. (Sometimes I think if this company succeeds it will be in spite of itself.)

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This, of course, is just a Greenberg sampler, but in the very least this should give you a flavor of what to expect as we move forward.

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EXHIBIT E

Zix Share Price Compared with the Composite Index Surrounding the Proposed Class Period

